



REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE BOJANALA PLATINUM DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Bojanala Platinum District Municipality set out on pages [XX] to [XX], which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes, comprising of a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Bojanala Platinum District Municipality as at 30 June 2013, its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised and irregular expenditure

8. As disclosed in note 22.1 to the financial statements, unauthorised expenditure of R7 392 525 was incurred in the current year and the unauthorised expenditure of R8 423 805 in respect of prior years has not yet been dealt with in accordance with section 32 of the MFMA.
9. As disclosed in note 22.3 to the financial statements, irregular expenditure from prior years of R3 050 094 has not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

10. As disclosed in note 36 to the financial statements, the corresponding figures for 2012 have been restated as a result of an error discovered in the financial statements of the Bojanala Platinum District Municipality at, and for the year ended, 30 June 2013.

Material underspending of the budget

11. As disclosed in note 30 to the financial statements, the municipality materially underspent the budget on "Community environment services" by R2 185 450, which contributed to the municipality not achieving its service delivery objectives.

Additional matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

13. The supplementary information set out on pages [XX] to [XX] does not form part of the financial statements and is presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages [XX] to [XX] of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury framework for managing programme performance information (FMPPI).
17. The reliability of the information in respect of the selected development priorities and objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
18. The material findings are as follows:

Usefulness of information



19. Section 46 of the Municipal Systems Act, 2000 (Act 32 of 2000) (MSA) requires disclosure in the annual performance report of the measures taken to improve performance, where planned targets were not achieved and should be supported by adequate and reliable corroborating evidence. Measures to improve performance for a total of 80% of the planned targets not achieved were not reflected in the annual performance report which resulted from the lack of proper management revision of the annual performance report. Furthermore, adequate and reliable corroborating evidence could not be provided for all measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.
20. The FMPPI requires that performance indicators be well defined and verifiable and targets be specific, measureable and time bound:
- A total of 82% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.
 - A total of 24% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.
 - A total of 72% of the targets were not specific in clearly identifying the nature and the required level of performance.
 - A total of 26% of the targets were not measurable.

This was due to the fact that management was not aware of the requirements of the FMPPI and did not receive the necessary training to enable application of these principles.

Reliability of information

21. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to the development priorities "Basic service delivery and infrastructure investment", "Local economic development" and "Good governance and community participation". This was due to limitations placed on the scope of my work due to the lack of properly established and communicated policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities relating to the collecting and filing of information that supports the reported performance.

Compliance with laws and regulations

22. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

23. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by Municipal Planning and Performance Management Regulation 15(3).
24. The performance management system of the municipality was not in line with the indicators and targets contained in its integrated development plan, as required by section 38(a) of the MSA.
25. The performance management system of the municipality did not provide for taking steps to improve performance with regard to those development priorities and objectives where performance targets are not met, as required by section 41(1)(d) of the MSA.
26. The annual performance report for the year under review does not include the performance of

each external service provider, as required by section 46 (1)(a) of the MSA.

27. The municipality did not have and maintain effective, efficient and transparent systems of internal controls regarding performance management as required by section 62(1)(c)(i) of the MFMA.

Internal audit

28. The internal audit unit did not submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Budget

29. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current liabilities and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

31. Reasonable steps were not taken to prevent unauthorised and fruitless and wasteful expenditure as required by section 62(1)(d) of the MFMA.

Consequences management

32. Unauthorised, fruitless and wasteful and irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Internal control

27. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

33. The leadership did not sufficiently exercise oversight over financial and performance reporting, monitoring of compliance with laws and regulations and related internal controls whilst policies and procedures did not adequately guide financial and performance activities and action plans to address prior year audit findings.

Financial and performance management

34. Despite management having implemented internal controls and processes over financial reporting and compliance with laws and regulations, these internal controls and processes were not sufficiently monitored to impact towards clean administration. Management did not sufficiently implement effective controls and processes to ensure that information in the performance report were useful and reliable before submission for audit. This was mainly due to management not sufficiently addressing the prior years' audit findings and staff in the performance management section not understanding the requirements of the performance management reporting framework.

Governance

35. Despite the internal audit and the audit committee functioning during the year, these structures did not sufficiently impact upon the procedures and operations of the municipality to resolve matters raised in the previous audit report.

OTHER REPORTS

Investigations

36. An investigation by the Public Protector to probe the procurement of goods and services in prior financial years is being conducted. The investigation aims to establish whether the aforementioned procurement of goods and services were done in accordance with the Supply Chain Management Regulations. The investigation is still ongoing at the reporting date.
37. Investigations by the Special Investigation Unit which were commissioned by the Presidency are currently in progress. However, the nature and reports related to these investigations are currently not available as it has not been provided by this investigating agency to management.

Auditor General

Rustenburg

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

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